



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

AUG 2 1994

Memorandum

Date *Michael Mangano*
From *for* June Gibbs Brown
Inspector General

Subject Superfund Financial Activities at the National Institute of
Environmental Health Sciences for Fiscal Year 1992
(A-04-93-04506)

To Philip R. Lee, M.D.
Assistant Secretary for Health

The attached final report provides you with the results of our audit of the National Institute of Environmental Health Sciences (NIEHS) Superfund financial activities for Fiscal Year (FY) 1992. Our audit was conducted pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended. This act requires the Inspector General of each Federal organization with Superfund responsibilities to conduct audits of all payments, obligations, reimbursements, or other uses of the Superfund. Through interagency agreements with the Environmental Protection Agency, NIEHS obligated \$51 million and disbursed \$41 million in Superfund resources during FY 1992.

Our audit disclosed that NIEHS generally administered the fund according to Superfund legislation. Regarding recommendations in our prior audit report that covered activities for FY 1991, NIEHS implemented, or is in the process of implementing, all of the recommendations with the exception of the area of grantee audits. In this regard, the National Institutes of Health (NIH) which provides administrative support to NIEHS, and NIEHS still do not have procedures to ensure that all Superfund grantees had obtained independent audits. As a result, NIH and NIEHS were not aware whether audit requirements were being met. Further, they were not aware whether some grantees who did not submit the required audit reports should have been sanctioned.

We are recommending that the Public Health Service (PHS) direct NIH to: (1) establish procedures to ensure that all Superfund grantees submit audit reports; and (2) sanction grantees who are unwilling to have a proper audit conducted.

In its written response, the PHS agreed to ask NIH to ensure that audit reports are submitted for Superfund grantees. The PHS also agreed to take appropriate action should any grantee refuse to submit a required audit report.

We would appreciate being advised within 60 days on the status of corrective actions taken or planned on each recommendation. Should you wish to discuss the issues raised by our review and

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the recommendations, please call me or have your staff contact Michael R. Hill, Assistant Inspector General for Public Health Service Audits, at (301) 443-3582. Please refer to the Common Identification Number A-04-93-04506 in all correspondence relating to this report.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**SUPERFUND FINANCIAL ACTIVITIES AT
THE NATIONAL INSTITUTE OF
ENVIRONMENTAL HEALTH SCIENCES
FOR FISCAL YEAR 1992**



JUNE GIBBS BROWN
Inspector General

AUGUST 1994
A-04-93-04506

EXECUTIVE SUMMARY

This final report provides the results of our audit of the National Institute of Environmental Health Sciences (NIEHS) Superfund financial activities for Fiscal Year (FY) 1992. We conducted the audit to comply with provisions of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (Act). The Act requires the Inspector General of a Federal organization with Superfund responsibilities to annually audit all uses of the Superfund.

The NIEHS receives funds through an interagency agreement (IAG) with the Environmental Protection Agency (EPA) to carry out health related and other functions mandated by Superfund legislation. During the period October 1, 1991 through September 30, 1992, NIEHS' obligations of Superfund resources totaled about \$51 million and disbursements totaled about \$41 million.

Our audit disclosed that NIEHS generally administered the fund according to Superfund legislation. We also determined that NIEHS implemented, or is in the process of implementing, all of the recommendations made in the prior report with the exception of the area of grantee audits. In this regard, the National Institutes of Health (NIH) which provides administrative support to NIEHS, and NIEHS did not implement last year's recommendations to: (1) establish procedures to ensure that all Superfund grantees submit audit reports; and (2) sanction grantees who are unwilling to have a proper audit conducted and submitted in accordance with Office of Management and Budget (OMB) Circulars A-128 and A-133. As a result, NIH and NIEHS were not aware whether audit requirements were being met. Further, they were not aware whether some grantees who did not submit the required audit reports should have been sanctioned.

We are recommending that the Public Health Service (PHS) direct NIH to: (1) establish procedures to ensure that all Superfund grantees submit audit reports; and (2) sanction grantees who are unwilling to have a proper audit conducted.

In its written response, PHS agreed that procedures should be established to ensure that the appropriate audit reports are submitted by all of the Department of Health and Human Services (HHS) grantees. However, PHS believes that such procedures should be at a central control point within the Federal Government. If that is not possible, it believes that this responsibility should be at the Office of the Secretary level.

Although the PHS does not believe it is responsible for ensuring that audit reports are received for all PHS grantees, it did agree to ask NIH to ensure that audit reports are submitted for Superfund grantees. The PHS also agreed to take appropriate action should any grantee refuse to submit a required audit report.

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ABBREVIATIONS USED

Act	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
CAN	Common Accounting Number
CIN	Common Identification Number
CFR	Code of Federal Regulations
EPA	Environmental Protection Agency
FY	Fiscal Year
GMO	Grants Management Officer
HHS	Department of Health and Human Services
IAG	Interagency Agreement
NEARC	National External Audit Review Center
NIEHS	National Institute of Environmental Health Sciences
NIH	National Institutes of Health
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHS	Public Health Service
SARA	Superfund Amendments and Reauthorization Act of 1986

BACKGROUND

The NIEHS, located at Research Triangle Park, North Carolina, is a component of NIH. The NIH provides NIEHS with direction, billing services, and other administrative and professional services. The NIH is an agency of PHS within HHS.

The Act mandated the establishment of the Hazardous Substance Response Fund, which is commonly known as Superfund. The Act was extended and amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA). The Superfund is a trust fund managed by the EPA. The fund is used to respond to emergency environmental conditions that are hazardous to health and to pay for the removal of toxic substances.

The NIEHS receives funding from EPA to carry out functions mandated by the Act. In carrying out its Superfund responsibilities, NIEHS uses about 4 percent of these funds for administrative costs and awards the remaining 96 percent to other organizations. These organizations:

- train persons who are engaged in hazardous waste removal, containment, or emergency response activities; and
- study the effects of exposure to specific chemicals.

Funds are obligated by NIEHS when it agrees to fund activities related to the Act. Funds are disbursed by NIEHS after the activities have been completed. During the period October 1, 1991 through September 30, 1992, the NIEHS obligated about \$51 million and disbursed about \$41 million in Superfund resources. Of the \$41 million of disbursements, \$2.3 million was related to FY 1992 funds. The remaining \$38.7 million was related to prior periods.

The NIH prepared financial statements for Superfund activities at NIEHS. These financial statements are included as Appendix A to this report.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine:

- the allowability, allocability, and reasonableness of costs claimed under NIEHS' agreement with EPA;
- whether NIEHS charged overhead in compliance with section 601 of the Economy Act of 1932 and

Comptroller General Decisions (Comp. Gen.) 56 Comp. Gen. 275 (1977) and 57 Comp. Gen. 674 (1978);

- whether NIEHS was able to accurately record costs on a site-specific basis; and
- whether NIEHS submitted the minority business utilization report timely and whether the report was supported by relevant documentation.

The audit was conducted to comply with section 111(k) of the Act, as amended by SARA. We performed the audit in accordance with IAG DW75935900-01-0 between EPA's Office of Inspector General (OIG) and HHS' OIG. We followed up on the recommendations contained in our prior audit (Common Identification Number (CIN) A-04-92-04103 issued on August 6, 1993) to determine whether NIEHS had taken corrective measures.

The NIH provided a financial transactions listing of Superfund obligations and disbursements recorded during the period October 1, 1991 through September 30, 1992. This listing included grant obligations of \$49,130,112 and nongrant obligations of \$1,869,789. The \$49,130,112 of grant obligations consisted of \$49,146,637 for FY 1992 funds and a deobligation of \$16,525 for prior year funds. In addition, the listing included grant disbursements of \$38,598,762 and nongrant disbursements of \$2,395,172.

We compared the information presented in the financial statements which were prepared by NIH, to the information provided by NIH in the transactions listing. We reviewed this information as a basis for responding to the objectives of the audit. These objectives did not include auditing the financial statements for the purpose of expressing an opinion on them. Therefore, we do not express an opinion on the fairness of the financial statements taken as a whole.

The NIEHS entered into agreements with universities, unions, and other nonprofit organizations to carry out its responsibilities under the Act. We verified the \$49,146,637 in obligation transactions to the grant award documents for the 37 research and training grants. The scope of our audit did not include auditing disbursements by the grantees. These grants are subject to independent audits under OMB Circular A-133 or A-128.

We reviewed a stratified random sample of 100 nongrant transactions. This sample consisted of 30 personnel and 70 other disbursement transactions. The 30 personnel disbursement transactions totaled \$18,993 from 858 personnel transactions

totaling \$362,755. The 70 other disbursement transactions totaled \$1,463,326 from 951 other transactions totaling \$2,032,417.

We also reviewed a judgmental sample of 20 unliquidated nongrant obligations. These 20 transactions totaled \$32,810 from a universe of \$484,911 in unliquidated obligations. The associated disbursements for these transactions will be subject to review in future Superfund audits.

We determined whether NIEHS had obtained and used information from grantee audit reports. To do this, we contacted HHS' OIG, Office of Audit Services' National External Audit Review Center (NEARC) and the Audit Resolution Section of NIH. We determined whether the 19 FY 1989 grantees had submitted audit reports in accordance with Title 45 of the Code of Federal Regulations (CFR), section 74.62. This review was limited to FY 1989 grantees because audits would not be due on these grants until FY 1992.

We interviewed NIEHS officials to determine if they had a system for recording costs for specific sites.

We performed general tests of compliance with laws and regulations, such as those covering cost principles. In addition, we tested NIEHS' compliance with provisions of the following laws: (1) section 601 of the Economy Act of 1932 and amendments thereto (IAGs); (2) the Comptroller General Decisions 56 Comp. Gen. 275 (1977) and 57 Comp. Gen. 674 (1978), (inclusion of overhead in IAGs); (3) section 104(i) of the Act, (Functional Requirements of NIEHS); and (4) section 105(f) of the Act, (minority business utilization).

As part of our audit, we evaluated NIEHS' system of internal controls to the extent necessary to accomplish the objectives of the audit. However, our audit did not include a comprehensive evaluation that would be necessary to express an opinion on the system of internal controls taken as a whole. For the purposes of this audit, we classified significant internal controls into eight categories:

- Funding Authority
- Personnel Compensation and Benefits
- Payroll and Timekeeping
- Travel
- Other Contractual Services
- Grants, Subsidies, and Contributions
- Equipment
- Reporting

Our evaluation of internal controls included all of the categories noted except Personnel Compensation and Benefits. Since only nine individuals were paid from Superfund and personnel cost represented less than 1 percent of total Superfund obligations made by NIEHS, we do not feel that this system presents a significant risk.

We conducted our audit in accordance with generally accepted government auditing standards applicable to financial-related audits. Our review was performed at NIEHS in Research Triangle Park, North Carolina, and NIH in Bethesda, Maryland, during the period January through March 1993. We performed additional work in the Raleigh Field Office during the period April through October 1993.

The PHS provided a written response to our report. The PHS' comments, dated May 31, 1994, are summarized on page 9 and are included in their entirety as Appendix B to this report.

RESULTS OF AUDIT

Our audit showed that NIEHS:

- generally incurred Superfund obligations and made disbursements for allowable, allocable, and reasonable costs;
- was in compliance with the Economy Act with regard to charging overhead;
- did not have a need to record costs on a site-specific basis;
- submitted, in a timely manner, a minority business utilization report which was supported by relevant documentation;
- had taken, or started, actions to implement all recommendations in our prior annual report with the exception of the area of grantee audits. Specifically, NIEHS did not (1) have procedures to ensure that grantees comply with audit requirements, and (2) sanction grantees who are unwilling to have a proper audit conducted.

In addition to reporting the results of our audit by objective, we have included compliance and internal control sections as required by generally accepted government auditing standards.

Allowability of Costs

The Superfund transactions included in our review for the period October 1, 1991, through September 30, 1992 relate to FY 1987 through FY 1992 funds. The financial transactions were generally properly and accurately recorded. Supporting documentation showed that obligations were generally incurred and disbursements were made for valid Superfund activities. We found no indication of payments or other uses of the Superfund other than those shown in NIEHS' records as obligations and disbursements.

Our review of grant costs focused on a review of grantee audit reports. Our audit showed that NIH did not have adequate procedures to ensure that all Superfund grantees had obtained independent audits. See the finding entitled, "Grantee Audits", on page 6 of this report.

Overhead

Our review showed that NIEHS did not charge overhead in FY 1992. In our previous audit, we recommended that PHS have NIH determine whether NIEHS is incurring significant amounts of overhead for its Superfund IAG and, if needed, establish procedures for computing and billing these costs.

In its written response to our previous audit, PHS concurred with the recommendation regarding overhead. The response stated that NIEHS identified all significant costs as direct costs and significant overhead was not incurred. We determined that a staff of 9 full-time equivalents out of 636 employed by NIEHS were involved in Superfund and that Superfund administrative costs were only \$2.3 million out of NIEHS' total administrative costs of \$84.6 million. Therefore, we concur with NIEHS' assessment of overhead and believe that its decision is in accordance with the Economy Act of 1932, as amended.

Costs Recorded on a Site-Specific Basis

The NIEHS does not record costs for specific sites because it is only involved with research and worker training. Costs for these activities cannot be identified to a specific site. Therefore, it was not necessary for NIEHS to have the ability to record costs for specific sites.

Minority Business Utilization Report

The minority business utilization report is required annually by EPA. The report should list contracts with minority businesses. Our review showed that NIEHS did not enter into any Superfund

contracts. The report accurately reflects that NIEHS did not enter into any contracts with minority organizations. The NIEHS submitted the required report in a timely manner.

Compliance

Compliance with laws and regulations, contracts, grants, and IAGs applicable to NIEHS is the responsibility of NIEHS' management. With respect to the items tested, NIEHS complied--except as described in the "Results of Audit" section of this report--in all material respects, with the provisions of applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that NIEHS had not complied, in all material respects, with those provisions.

Internal Controls

The NIEHS is responsible for establishing and maintaining internal control systems used in administering Superfund programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objective of internal control systems is to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Although our audit did not disclose material irregularities, we noted certain matters involving the internal control structure and its operations that we consider reportable conditions based on reporting requirements of generally accepted government auditing standards.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial reports.

Finding and Recommendations--Grantee Audits

Our review this year, as well as in the previous year, disclosed that NIH and NIEHS are not ensuring that grantees comply with the requirement to have audits conducted in accordance with Title 45 of CFR, Part 74.62. This regulation defines the audit requirements for nonfederal audits for recipients and establishes that audit reports should be sent to NEARC. It provides that recipients that are not governments will comply with OMB Circular A-133 and recipients that are governments will comply with OMB Circular A-128. Before January 1, 1990, OMB Circular A-110 defined audit requirements for nongovernment recipients. All of NIEHS' Superfund grantees are required to have a nonfederal audit conducted in accordance with 45 CFR, 74.62.

Although grant funds make up approximately 96 percent of total Superfund activity at NIEHS, procedures were not in place to ensure that required independent audits were being performed for all Superfund grantees. As a result, NIH and NIEHS were not aware whether audit requirements were being met. Further, they were not aware whether some grantees who did not submit the required audit reports should have been sanctioned. Without obtaining and reviewing information contained in these reports, NIH and NIEHS had no assurance that accounting system weaknesses and unallowable costs that may have existed were being detected and corrected.

We discussed with NIEHS officials how they ensured that grantees complied with audit requirements. According to NIEHS' policy, a letter containing information about grants administration is mailed to all new prospective Superfund grantees when grant applications are received. This letter gives the prospective grantee information on how to obtain a copy of the PHS Grants Policy Statement. The PHS Grants Policy Statement, Audit Section, page 8-24, states that:

"...45 CFR Part 74, Subpart H...require recipients to comply with OMB requirements for audits conducted by, or at the discretion of, the recipient. The OMB requirements explain the scope, frequency, and other aspects of the audit."

The Superfund grant awards used by NIEHS contained a general reference that the provisions of both 45 CFR, 74 and the Grants Policy Statement were applicable to the grant.

In addition, NIEHS conducts a semiannual meeting with all Superfund grantees. According to NIEHS' grants management personnel, the grantees are notified that an audit is required under the terms of OMB Circular A-133 or A-128. The NIEHS did not have follow-up procedures to ensure that audits were

performed and reports were submitted to NEARC. The NIEHS' grants management personnel do not feel that it is their responsibility to ensure that audits are conducted and that audit reports are submitted to NEARC.

However, section 101.3(a) of the PHS Grants Administration Manual states that the grants management officer (GMO)

"...has overall responsibility for monitoring the grants process to ensure that all required business management actions are performed by the grantee and the Government in a timely manner, both prior to and after award...."

In addition, section 101.3(p)(1) states that:

"GMO's shall serve as the receipt point, or obtain assurances of receipt, for performance reports, financial status reports, and most other reports required by the terms and conditions of the grant...."

Therefore, the GMO is responsible for obtaining assurance that the audits are performed and the reports provided to the appropriate officials.

Although NIEHS made some efforts to ensure that grantees were aware of their responsibilities to have audits conducted, the required audits were not always performed and submitted to NEARC. The NIEHS entered into agreements with 19 grantees in FY 1989 to provide Superfund research and training. Of the 19 grantees, 13 were universities, 5 were labor unions, and 1 was a local government. We contacted NEARC to determine whether they had received audit reports for the grantees. The NEARC was responsible for processing and ensuring the quality of external audit reports for 17 of the 19 grantees. We did not contact the Federal agencies that were responsible for the other two grantees. Of the 17, only 9 had submitted audit reports to NEARC. Of the nine grantees that had submitted audit reports, eight were universities and one was a union. Neither NIH nor NIEHS were aware that the remaining eight grantees had not submitted audit reports to NEARC.

Section 8 of the attachment to OMB Circular A-133 makes the additional requirement for institutions of higher education and other nonprofit institutions for audits of FYs starting on or after January 1, 1990, that:

"In cases of continued inability or unwillingness to have a proper audit in accordance with the Circular, Federal agencies must consider appropriate sanctions including:

- withholding a percentage of awards until the audit is completed satisfactorily;
- withholding or disallowing overhead costs; or
- suspending Federal awards until the audit is made."

Section 17 of OMB Circular A-128 includes similar requirements regarding sanctions for State and local governments.

Knowing which grantees have not submitted audit reports would provide the GMO with information needed to take follow-up actions and initiate sanctions, when needed.

In our prior audit report (CIN A-04-92-04103), we also reported that NIH and NIEHS were not ensuring that grantees comply with the requirement to have audits conducted in accordance with Title 45 of CFR, Part 74.62. In its written response to our prior audit report, PHS stated that they agreed that there should be procedures to ensure that audit reports were submitted for all HHS grantees, including Superfund grantees; however, they did not believe that it was PHS' responsibility to establish and maintain these procedures.

RECOMMENDATIONS

The NIEHS is notifying grantees by a general reference to the CFR that audits are required. This procedure does not appear to be effective since only 9 of the 17 grantees submitted audit reports to NEARC. In addition, under the current procedures, NIH and NIEHS would not be aware of those grantees that had not submitted audit reports and therefore, could not take the appropriate sanctions. We recommend that PHS direct NIH to:

- establish procedures to ensure that all Superfund grantees submit audit reports.
- sanction grantees that are unwilling to have a proper audit in accordance with OMB Circular A-133 or A-128.

PHS COMMENTS

In its written response, PHS agreed that procedures should be established to ensure that the appropriate audit reports are submitted by all of HHS' grantees. However, PHS believes that such procedures should be at a central control point within the Federal Government. If that is not possible, it believes that this responsibility should be at the Office of the Secretary level.

The PHS stated that they have discussed this issue with the OIG, the Office of the Assistant Secretary for Management and Budget and OMB. The PHS response states,

"Staff in OASMB and OMB have indicated that the Single Audit Clearinghouse operated by the Bureau of the Census will be given the responsibility for following-up to ensure that single audit reports are submitted by recipients required to have single audits conducted. Until this occurs, we believe there should be a single control point within the Office of the Secretary which would be responsible for ensuring that all HHS grantees submit the required audit reports."

Although the PHS does not believe it is responsible for ensuring that audit reports are received for all PHS grantees, it did agree to ask NIH to ensure that audit reports are submitted for Superfund grantees. The PHS also agreed to take appropriate action should any grantee refuse to submit a required audit report.

Further, PHS stated that six of the eight reports which had not been submitted at the time of our audit have now been submitted to NEARC. Of the six that have been submitted, two have been processed and issued by the OIG. The remaining four are being processed or have been returned by the OIG for additional work. The PHS also stated that they will ask NIEHS to follow up with the two organizations that have not yet submitted their audit reports.

FOLLOW-UP OF PRIOR REVIEW

Our follow-up on the recommendations contained in our prior audit (CIN A-04-92-04103 issued on August 6, 1993) showed that NIEHS had taken, or started, actions to implement all recommendations in the prior report with the exception of the area of grantee audits.

Grantee Audits

In our previous audit, we included a finding on grantee audits. This area is discussed under the heading, "Grantee Audits," on page 7 of this report.

Budget Procedures

In our previous audit, we recommended that PHS have NIH determine whether it is incurring significant amounts of overhead for its Superfund IAG and if needed, establish procedures for computing and billing these costs. This area is discussed under the heading of "Overhead" on page 5 of this report.

We also recommended that PHS make improvements in the budgeting process to ensure that the budget more accurately reflects all anticipated obligations and disbursements. The PHS does not believe that there is a problem with the budget process. However, they do concur that mistakes were made filling out the approved budget table in the IAG documents. To ensure that these mistakes do not occur again, NIEHS has hired a full-time project officer to manage the IAG. We concur with PHS' response and believe that the proposed corrective action should remedy the problem.

Reimbursement Billings

In our previous audit, we recommended that PHS have NIH:

- (1) adjust intramural billings for a net under billing of \$53,237;
- (2) establish procedures to bill for intramural accruals related to obligations that are over 3 years old; and
- (3) establish procedures to ensure that EPA is billed for each function up to the total amount allowed under the Act.

The PHS concurred with the recommendations in this area and indicated that the adjusting entries have been made or are in the process of being made. The PHS stated that NIH is working on procedures regarding billing intramural accruals over 3 years old and billing up to the total amount allowed under the Act.

At the time of this audit, NIH had not had an opportunity to correct the problems noted in our previous audit. We found that as of September 1992, NIH records showed that EPA had not been billed for:

- \$15,214 of FY 1988 intramural accruals that were over 3 years old. During our prior audit period (October 1, 1990 through September 30, 1991), only those accruals related to FY 1989, FY 1990, and FY 1991 funds were being billed. However, during our prior audit period, NIEHS was still incurring disbursements for FY 1988 funds that had been obligated in FY 1988.
- \$2,446, \$14,256, \$2,949, and \$52,128 of FY 1987, FY 1988, FY 1989, and FY 1990 intramural accruals for which billing was suspended because accruals had exceeded internally established budgeted amounts. No further billings were made after a particular Common Accounting Number (CAN) reached a budgeted amount. The budgeted amount was established by NIEHS on an internal document to establish the agency to be billed and give NIH the authority to bill that agency. This document was used inappropriately to limit the amounts billed. Six CANs account for Superfund activities for two

functions; three CANs for training and three CANs for research. The SARA limits NIEHS' Superfund budget by function, but funds can be transferred between CANs in the same function. The NIH should continue to bill EPA up to the maximum allowable for a particular function.

Also, for FY 1990 and FY 1991, intramural billings exceeded accruals by \$10,004 and \$503 respectively due to clerical errors. We have discussed these incorrect billings with NIH personnel and they have indicated that corrections will be made. We will continue to follow up on the issue of reimbursement billings until audit recommendations have been fully implemented.

We would appreciate being advised within 60 days on the status of corrective actions taken or planned on each recommendation. Should you wish to discuss the issues raised by our review and the recommendations, please call me or have your staff contact Michael R. Hill, Assistant Inspector General for Public Health Service Audits, at (301) 443-3582. Please refer to the CIN A-04-93-04506 in all correspondence relating to this report.

APPENDICES

SUPERFUND ACTIVITIES

FISCAL YEAR 1992

FINANCIAL STATEMENTS AND NOTES

UNAUDITED

Department of Health and Human Services
National Institutes of Health
Superfund Activities
STATEMENT OF FINANCIAL POSITION
As of September 30, 1992
(Dollars in Thousands)

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ASSETS

Financial Resources:

Fund Balances with Treasury (Note 2)	\$85,795
Accounts Receivable, Net - Non-Federal	10,264

Total Financial Resources	<u>\$96,059</u>
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Total Assets	<u>\$96,059</u> =====
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LIABILITIES

Funded Liabilities:

Accounts Payable - Non-Federal	\$38,593
Accrued Payroll and Benefits	14
Intragovernmental Liabilities	
Accounts Payable, Federal	67,397

Total Funded Liabilities	<u>\$106,004</u>
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Unfunded Liabilities:

Accrued Leave	\$92
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Total Unfunded Liabilities	<u>\$92</u>
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Total Liabilities	<u>\$106,096</u>
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NET POSITION

Fund Balances (Note 3)	<u>(\$10,037)</u>
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Net Position	<u>(\$10,037)</u>
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Total Liabilities and Net Position	<u>\$96,059</u> =====
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UNAUDITED

The accompanying notes are an integral part of these statements.

Department of Health and Human Services
National Institutes of Health
Superfund Activities

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STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
For the Period Ended September 30, 1992
(Dollars in Thousands)

FINANCING SOURCES

Reimbursements	\$49,725
Total Financing Sources	<u>\$49,725</u>

EXPENSES

Program/Operating Expenses (Note 4)	\$40,986
Total Expenses	<u>\$40,986</u>

Excess of Financing Sources Over
Total Expenses Before Adjustments
Plus Adjustments:
Prior Period Adjustments

\$8,739
16

Excess of Financing Sources
Over Total Expenses
Plus: Unfunded Expenses

\$8,755
1

Excess of Financing Sources
Over Funded Expenses

\$8,756
=====

Net Position, Beginning Balance
Excess of Financing Sources
Over Total Expenses

(\$18,792)
8,755

NET POSITION, ENDING BALANCE

(\$10,037)
=====

UNAUDITED

The accompanying notes are an integral part of these statements.

Department of Health and Human Services
National Institutes of Health
Superfund Activities
STATEMENT OF CASH FLOWS
For the Period Ended September 30, 1992
(Dollars in Thousands)

APPENDIX A
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CASH FLOWS FROM OPERATING ACTIVITIES:

Excess of Financing Sources Over Total Expenses	\$8,755
Adjustments Affecting Cash Flow:	
(Increase) in Accounts Receivable	(\$9,807)
Increase in Accounts Payable	38,593
Increase in Other Liabilities	9
Total Adjustments	\$28,795
Net Cash Provided by Operating Activities	\$37,550
Fund Balance with Treasury, Beginning	\$48,245
Fund Balance with Treasury, Ending	\$85,795
	=====

UNAUDITED

The accompanying notes are an integral part of these statements.

Department of Health and Human Services
National Institutes of Health
Superfund Activities
STATEMENT OF BUDGET AND ACTUAL EXPENSES
For the Period Ended September 30, 1992
(Dollars in Thousands)

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Program Name	BUDGET			ACTUAL
	Resources	Obligations		Expenses
		Direct	Reimbursed	
Superfund	\$51,134	\$0	\$51,134	\$40,986
Totals	\$51,134	\$0	\$51,134	\$40,986
	=====	=====	=====	=====
Budget Reconciliation:				
	Total Expenses			\$40,986
	Less:			
	Unfunded Annual Leave Expense			1
	Accrued Expenditures			40,985
	Less Reimbursements			49,725
	Accrued Expenditures, Direct			(\$8,740)
				=====

UNAUDITED

The accompanying notes are an integral part of the statements.

**NATIONAL INSTITUTES OF HEALTH
SUPERFUND ACTIVITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDING SEPTEMBER 31, 1992
(DOLLARS IN THOUSANDS)**

- Note 1: Significant Accounting Policies
- Note 2: Fund Balance with Treasury
- Note 3: Program/Operating Expenses

UNAUDITED

DEPARTMENT OF HEALTH AND HUMAN SERVICES
National Institutes of Health
Superfund Activities
NOTES TO FINANCIAL STATEMENTS
September 30, 1992

Note 1. Significant Accounting Policies:

Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operations of the Superfund Activities, as required by the Chief Financial Officers Act of 1990. The financial data was prepared from the books and records of NIH in accordance with form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 93-02, and NIH accounting policies.

Reporting Entity:

The National Institutes of Health (NIH) is an agency of the Department of Health and Human Services (DHHS), which is a Department of the United States Government. The NIH is the Federal focal point for health research.

Public Law 96-510, known as the Comprehensive Environmental Response, Compensation and Liability Act of 1980, mandated the establishment of the Hazardous Substance Response Trust Fund, also known as the Superfund. The Superfund amendments and Reauthorization Act of 1986 extended and amended the previous public law. The Superfund, managed by the Environmental Protection Agency (EPA), is a trust fund used to respond to emergency environmental conditions that are hazardous to health, and to pay for the removal of toxic substances. The National Institutes of Environmental Health Sciences (NIEHS) participates in the EPA Superfund Activities. Costs are accumulated using various reimbursable Common Accounting Numbers under the National Institutes of Environmental Health Sciences (NIEHS) annual appropriation.

The NIEHS receives funding through an interagency agreement with the EPA to carry out the mandated functions of the Superfund legislation. In carrying out its responsibilities, the NIEHS awards over 95% of its funds under two programs, the Basic Research and Training Program and the Worker Training Program.

Basis of Accounting:

Transactions are recorded on an accrual and a budgetary basis. Under the accrual method, revenues are recognized when a liability is incurred. Budgetary accounting facilitates compliance with legal restraints and controls over the use of federal funds.

The accounting standards for this entity are pronouncements issued by the Federal Accounting Standards Advisory Board (FASAB) and accounting standards that are issued by the U.S. Comptroller General under 31 U.S.C. 3511 and 3512 (Title 2). At present, the FASAB has not issued any pronouncements and has given guidance for federal entities to adhere to Title 2 as a basis for recording their transactions. The disclosures in these financial statements were prepared in accordance with OMB Bulletin 93-02.

Annual, Sick, and Other Leave:

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current of prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Sick leave and other types of nonvested leave are expensed as taken.

Comparative Data:

Comparative data for the prior year has not been presented because this is the first year for which financial statements are being prepared for the Superfund Activities. In future years, comparative data will be presented in order to provide an understanding of changes in the financial position of the Superfund Activities.

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Note 2. Fund Balances w/Treasury: (Dollars in Thousands)

Fund Balance with Treasury:

	Available	Restricted	Total
Other Fund Types	\$85,795	\$ 0	\$85,795
Total Fund Balance	\$85,795	\$ 0	\$85,795

Other Information:

DHHS/NIH does not maintain cash in commercial bank accounts. Rather its receipts and disbursements are processed by the U.S. Treasury. The balance of funds with the U.S. Treasury represents funds that are available to pay current liabilities and finance authorized purchase commitments relative to goods or services which have not been received.

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Note 2 Program/Operating Expenses: (Dollars in Thousands)

Operating Expenses by Object Classification:

Personal Services and Benefits	\$ 354
Travel and Transportation	60
Contractual Services	1,957
Supplies and Materials	3
Equipment not Capitalized	12
Grants, Subsidies & Contributions	<u>38,599</u>
Total Expenses by Object Class	<u>\$40,986</u>

Operating Expenses by Program:

Superfund	<u>\$40,986</u>
Total	<u>\$40,986</u>

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UNAUDITED



DEPARTMENT OF HEALTH & HUMAN SERVICES

APPENDIX B
PAGE 1 OF 4
Public Health Service

MEMORANDUM

Rockville MD 20857

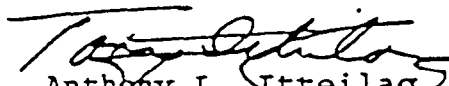
Date: MAY 31 1994

From: Deputy Assistant Secretary for Health Management Operations

Subject: PHS Comments on Office of Inspector General (OIG) Draft Reports "Superfund Financial Activities at the National Institute of Environmental Health Sciences for Fiscal Year 1992," A-04-93-04506; and "Superfund Financial Activities at the Agency for Toxic Substances and Disease Registry for Fiscal Year 1992," A-04-93-04518

To: Inspector General, OS

Attached are the PHS comments on the subject draft reports. We agree that procedures should be established to ensure the submission of single audit reports by all of the Department's grantees. Most grantees receive awards from more than one Department component and many receive awards from more than one Federal Department. As a result, in order to avoid situations where various Federal agencies are independently contacting recipient organizations and requesting the same audits, we believe such procedures should be at a central control point within the Federal Government. If that is not possible, we believe that this responsibility should be at the Office of the Secretary level so that communications with grantees are at least consolidated within the Department.


Anthony L. Itteilag

Attachment

PUBLIC HEALTH SERVICE (PHS) COMMENTS
ON THE OFFICE OF INSPECTOR GENERAL (OIG) DRAFT REPORTS
"SUPERFUND FINANCIAL ACTIVITIES AT THE AGENCY FOR TOXIC
SUBSTANCES AND DISEASE REGISTRY FOR FISCAL YEAR 1992."

A-04-93-4518, APRIL 1994

AND

"SUPERFUND FINANCIAL ACTIVITIES AT THE NATIONAL INSTITUTE OF
ENVIRONMENTAL HEALTH SCIENCES FOR FISCAL YEAR 1992."

A-04-93-04506, APRIL 1994

These draft reports provide the results of the OIG audits of the Superfund financial activities of the Agency for Toxic Substances and Disease Registry (ATSDR), and the National Institute for Environmental Health Sciences (NIEHS) for Fiscal Year 1992. The OIG audits found that ATSDR and NIEHS generally administered the Superfund monies in accordance with Superfund legislation. The auditors noted, however, that neither ATSDR nor NIEHS had established systems for tracking the transmittal of required audit reports by recipients of Superfund monies and recommended that such a system be established in each agency. The following sets forth the PHS comments on the auditors' recommendations.

OIG Recommendation

We recommend that PHS direct CDC and ATSDR, and NIH to:

- o establish procedures to ensure that all Superfund grantees submit audit reports; and
- o sanction grantees who are unwilling to have a proper audit conducted.

PHS Comments

We agree that procedures should be established to ensure that audit reports are submitted by all recipients of Federal funds, including Department of Health and Human Services (HHS) Superfund grantees subject to the provisions of Office of Management and Budget (OMB) Circulars A-128, "Single Audits of State and Local Governments," and A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions." Because many of these audits cover recipients which are funded by numerous Federal agencies, we also believe that the responsibility for these procedures should be placed at a central control point within the Federal Government. This would be necessary in order to avoid situations where various Federal agencies are independently contacting recipient organizations and requesting the same audits. Such independent contacts would not be consistent with the single audit concept which provides for a single Federal organization as the contact point.

We have discussed this issue recently in meetings involving staff from OIG, the Office of the Assistant Secretary for Management and Budget (OASMB), and OMB. Staff in OASMB and OMB have indicated that the Single Audit Clearinghouse operated by the Bureau of the Census will be given the responsibility for following-up to ensure that single audit reports are submitted by recipients required to have single audits conducted. Until this occurs, we believe there should be a single control point within the Office of the Secretary which would be responsible for ensuring that all HHS grantees submit the required audit reports.

However, in these particular instances, we will ask the grants offices in ATSDR and the Centers for Disease Control and Prevention (CDC) and the National Institutes of Health to work with the OIG's National External Audit Review Center (NEARC) to ensure that all Superfund grantees provide the required audit reports. Should any grantee refuse to submit an audit report, appropriate action will be taken, e.g., this action may include the sanctions provided for under the OMB Circulars.

Office of Audit Services note -- Comments have been deleted at this point because they pertain to material not included in this report.

We also would like to note that six of the eight NIEHS grantees identified by OIG as not submitting their audit reports have submitted them to NEARC. Two of the six reports have been processed and issued by OIG and are now at NIEHS; the other four are being processed or have been returned by OIG for additional work. We will ask NIEHS to follow-up with the two organizations that have not yet submitted their audit reports and advise you when appropriate results occur.

Office of Audit Services note -- Comments have been deleted at this point because they pertain to material not included in this report.